

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

CITY OF HIGHLAND PARK, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

CITY OF HIGHLAND PARK, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

	<u>PAGE</u>
LETTER OF TRANSMITTAL	-i-
INDEPENDENT AUDITORS' REPORT	-vi-
FINANCIAL STATEMENTS	
Combined Balance Sheet – All Funds Types and Account Groups	-2-
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Government Types	-3-
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	-4-
Statement of Revenues, Expenses and Changes in Accumulated Deficit – Enterprise Fund	-5-
Statement of Cash Flows – Enterprise Fund	-6-
Combined Statement of Changes in Plan Net Assets Available for Retirement Benefits	-7-
Notes to Financial Statements	-9-
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES	
GENERAL FUND	
Schedule of Expenditures and Transfers Out – Budget and Actual	-29-
SPECIAL REVENUE FUNDS	
Combining Balance Sheet	-32-
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	-33-
FIDUCIARY FUNDS	
Combining Balance Sheet	-35-
Combining Statement of Net Assets Available for Retirement Benefits	-36-
Combining Statement of Changes in Plan Net Assets	-37-



City of Highland Park

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Highland Park, Michigan 48203

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Administration

Emergency Financial Manager, Arthur Blackwell, II

To the Honorable Mayor, Members of the

City Council and Citizens

City of Highland Park, Michigan:

This letter serves as an introduction to the Audited Financial Statements for the 2006 fiscal year. The purpose of this letter is to highlight the significant financial problems noted in the financial statements as well as the accomplishments achieved during the past twelve months.

In June 2001, the State of Michigan (State) appointed an emergency financial manager to take over operations of the City and create a plan to correct the significant operating and structural problems that exist in the City. In April 2005, the State determined the emergency financial manager originally appointed had completed her assessment of the City's issues and appointed me as the new emergency financial manager (EFM) to concentrate primarily on economic development and continue to develop a long-term recovery plan. As the new EFM, I have agreed to a salary of \$1 per year, saving the City \$113,999 annually. The results summarized below are for the fiscal year 2006 operations.

General Fund

The General Fund is the primary operating fund of the City. The primary operating revenues are property taxes, income taxes and state shared revenue. The operating revenue is used to fund the basic operations of the City such as police and fire protection services, refuse pickup, code enforcement and general government functions such as election, tax collections and community development.

"Return to Excellence"

During the current year, my concentration was on eliminating the General Fund's annual operating deficit and cumulative deficit as well as eliminating opinion qualifications noted in the June 30, 2005 financial statements. The financial statements for the year ended June 30, 2005 noted the City had not recorded unpaid pension contributions in accordance with generally accepted accounting principals (GAAP). The prior EFM elected to record the past few years unpaid pension contributions as expenditures in the General Fund and revenue in the two pension systems, contrary to GAAP. The change in the method the contributions are recorded resulted in a decrease in the cumulative deficit from \$15,614,426 to \$10,494,343 at June 30, 2005.

A significant liability for the City since 1994 has been an income tax refund payable to DaimlerChrysler Corporation. The refund obligation, including interest totaled \$8,664,146 at June 30, 2006. As a result of negotiations with the corporation and with support of the State of Michigan, DaimlerChrysler agreed to forgive the entire balance owed by the City.

During the year ended June 30, 2006, the City continued to experience significant cash flow shortages. The City's significant annual operating and cash flow deficits make meeting payroll and operating expenditures a challenge during the last quarter of each fiscal year. In June, 2005 the City was forced to obtain a tax anticipation loan totaling \$1,250,000 to pay payroll and minimal operating costs during the last quarter of 2005. The loan was repaid in the current year from current year tax revenue. The repayment of the 2005 loan in the current year meant the City would again be short cash during the last quarter of the 2006 fiscal year. The City did obtain a new tax anticipation loan in April 2006 totaling approximately \$1,250,000 to ensure no interruptions in City services.

The accompanying financial statements for the year ended June 30, 2006 shows the General Fund had a fund deficit and annual operating deficit (excluding the one-time significant income tax refund payable forgiveness) of \$3,679,800 and \$1,853,283, respectively. The operating deficit for the year ended June 30, 2005 totaled \$2,787,700. The operating deficit decreased from 2005 to 2006 in the amount of \$934,417 due to savings from the elimination of contractors and decrease in the cost of rubbish removal coupled with not recording the unpaid pension contributions. The fund deficit at year-end represents approximately 28% of annual operating expenditures and 32% of annual operating revenue.

As the EFM, I continue to make eliminating the operating deficit a high priority and have taken several steps toward that goal in my first full year at the City. I have many additional projects I have identified and have spelled out to the State of Michigan in my deficit elimination plan filed in August 2005 to eliminate the annual operating deficit in the coming years. I continue to work with my management team of current employees, current contractors and other business

professionals to review the finances and all other areas within the City and continue to make improvements.

Component Units

During the current year I was able to obtain the information necessary to include the Tax Increment Finance Authority (TIFA) in the current year financial statements. The TIFA's finances and recording keeping were maintained by a third party for many years but the records were not forwarded to the City for review and inclusion in the annual financial statements. During the upcoming year, all remaining cash will be turned over to the City.

Water and Sewer Fund

General Fund cash flow continues to be crippled by the Water and Sewer Fund's inability to repay the outstanding loan balance of approximately \$3.4 million at June 30, 2006. The loan balance is a result of the City of Detroit garnishing the General Fund's state shared revenue in a prior year (prior to 2001) to pay delinquent sewer bills. The City had a significant rate increase in a prior year but billing and collection continue to be a problem. The system continues to have zero cash reserves and is strained by infrastructure problems resulting from failure to perform necessary maintenance over the years prior to the financial emergency.

As EFM, I ensured the City became current with the billing of all customers and reviewed all expenditure areas in detail. As a result, the annual operating revenue in the fund increased by approximately \$175,000 while the operating costs decreased by approximately \$759,400. The net income for the fund totaled \$1,084,309 for the year ended June 30, 2006 compared to the net income of \$74,439 for the year ended June 30, 2005. The increase in net income also resulted in an increase in cash flow of approximately \$434,000. The increase in cash flow was the primary reason the fund was able to repay part of the interfund loan to the General Fund. I continue to explore items such as having a third party read meter, bill and collect on behalf of the City, purchasing meters that can be read remotely, monthly billings and several other items. I continue to explore opportunities related to the water treatment plant. The plant was built to handle the water needs of a population of more than 50,000 people. The large plant now only serves 15,000 people and has excess capacity that could be used by other communities.

Pension Plans

The most significant issue facing the City in the 2006/2007 fiscal year is the funding of the MERS and Employee defined benefit pension plans. In fiscal year 2004, a judgment levy was ordered on the tax rolls to pay the debt service on bonds issued to partially fund the MERS pension plan. The MERS plan will again run out of reserves in September 2007. The City has been unable to make contributions to the Employee defined benefit pension plan for several years. The employee plan will also run out of reserves in September 2007. The unfunded pension obligation for the MERS and Employee systems are approximately \$13,000,000 and \$9,000,000, respectively. The City is working with the State and other experts to explore all options to fund the systems. In addition to the MERS and Employee systems, the City is also under a court order to pay the pension benefits to retirees in the Police and Fire Defined Benefit Pension Plan. The police and Fire plan ran out of reserves during the 2003 fiscal year. The unfunded pension obligation for all plans totals approximately \$39,000,000 at June 30, 2006. The annual required contribution from the General Fund for all plans totals approximately \$4,200,000 (38 % of annual operating revenues). The City has been unable to make the required contributions every year before and during the appointment of the emergency financial manager.

Post Employment Healthcare Benefits

In addition to the pension benefit obligations noted above, the City is also obligated under the union contracts of retirees to provide healthcare benefits. The General Fund pays for most of the monthly benefits for retirees and has no reserves established at June 30, 2006. The General Employees Defined Benefit Plan currently pays these benefits from system reserves. The estimated liability related to post employment healthcare benefits totals \$35,000,000.

Conclusion

Since the appointment of an emergency financial manager in June 2001, City's annual operating deficit has decreased from approximately \$3.9 million in 2001 to \$1.9 million in 2006. The reductions have come primarily through reductions to full time employees and eliminating City programs and services such as closing the library and recreation centers. The General Fund deficit has decreased from \$11.3 million in 2001 to \$3.7 million in 2006 primarily as a result of the annual operating deficits, cost associated with staff reductions (unemployment, sick and vacation bank payoffs, etc.) offset by the issuance of over \$9 million in new debt and over \$9 million in debt forgiveness.

The City has borrowed all the debt allowed by law. Even if the operating budget were to be balanced, no resources would be available to pay down past debts and make required pension payments, capital outlays and improvements necessary for the City to continue as a going concern. The current recovery plan will continue to focus on economic development, increasing property tax and income tax revenues and cutting costs to ensure the City can continue as a going concern.

Arthur Blackwell II, Emergency Financial Manager

RANDY K. LANE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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DETROIT, MICHIGAN 48226
TELEPHONE 313 961 1181 FACSIMILE 313 961 1182

Independent Auditors' Report

To the Emergency Financial Manager, Honorable Mayor
and Members of the City Council,
City of Highland Park, Michigan:

We have audited the accompanying financial statements of the CITY OF HIGHLAND PARK, MICHIGAN (the "City"), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of the Tax Increment Finance Authority - Component Unit have not been audited, and we were not engaged to audit the Tax Increment Finance Authority financial statements as part of our audit of the City's financial statements. The Tax Increment Finance Authority's financial activities are included in the City's financial statements as a discretely presented component unit, and represent 100 percent of the assets, equity, and revenues of the City's discretely presented component units.

As further described in Note 1, these financial statements do not purport to present, and do not present, the financial position, results of operations and proprietary cash flows of the City in accordance with accounting principles generally accepted in the United States of America. These financial statements depart from generally accepted accounting principles for a variety of reasons including the failure to: (a) adopt new financial reporting requirements; (b) provide certain required disclosures and supplemental information; (c) properly classify certain transactions; and (d) be derived from complete and accurate accounting records.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Tax Increment Finance Authority's financial statements been audited, and because of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Highland Park, Michigan as of June 30, 2006, or results of its operations or the cash flows of its proprietary fund for the year then ended.

City of Highland Park, Michigan

As discussed in Note 4-H to the financial statements, the City has given retroactive effect to a change in the method of accounting for pension contributions. In addition, the City restated previously recorded accrued liabilities for sick and vacation payouts in the Water and Sewer Enterprise Fund.

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 4-G to the financial statements, the City has suffered significant recurring deficits in the General Fund, and Water and Sewer Enterprise Fund, and may have insufficient resources to pay certain pension benefits and other potential obligations, that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 4-G. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2006, on our consideration of the City of Highland Park, Michigan's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part the financial statements of the City. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, as described in the forth and fifth paragraphs of this report, does not purport to be presented and is not fairly presented in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "R. K. L.", with a stylized flourish at the end.

December 20, 2006.

FINANCIAL STATEMENTS

CITY OF HIGHLAND PARK, MICHIGAN
COMBINED BALANCE SHEET
ALL FUNDS TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2006

	General	Special Revenues	Debt Service	Enterprise - Water and Sewer	Trust and Agency	General Fixed Assets	General Long-Term Debt	Total Primary Government (Memorandum Only)	Component Unit
<u>ASSETS AND OTHER DEBITS</u>									
ASSETS:									
Cash and cash equivalents	\$ 362,718	\$ 2,034,115	\$ -	\$ 434,166	\$ 1,551,903	\$ -	\$ -	\$ 4,382,902	\$ 327,524
Cash and cash equivalents – restricted	586,783	-	-	-	-	-	-	586,783	-
Investments	-	-	1,384,212	167,412	3,562,936	-	-	5,114,560	-
Receivables:									
Delinquent property taxes	707,128	-	-	-	-	-	-	707,128	-
Income taxes	299,888	-	-	-	-	-	-	299,888	-
Accounts, net	-	-	-	3,183,969	-	-	-	3,183,969	-
Due from other governments	663,117	1,213,631	-	-	-	-	-	1,876,748	-
Due from primary government	-	-	-	-	-	-	-	-	379,403
Due from other funds	388,444	207,816	-	264	-	-	-	596,524	-
Advances to other funds	3,384,465	952,872	-	-	276,745	-	-	4,614,082	-
Deposits and prepaid items	298,031	-	-	8,061	80,174	-	-	386,266	-
Fixed assets, net	-	-	-	7,042,082	-	10,177,487	-	17,219,569	-
Other long-term receivables	-	-	-	-	-	-	-	-	3,803,419
OTHER DEBITS:									
Amounts available in debt service funds	-	-	-	-	-	-	184,191	184,191	-
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	22,377,934	22,377,934	-
	-----	-----	-----	-----	-----	-----	-----	-----	-----
TOTAL ASSETS AND OTHER DEBITS	\$ 6,690,574	\$ 4,408,434	\$ 1,384,212	\$ 10,835,954	\$ 5,471,758	\$ 10,177,487	\$ 22,562,125	\$ 61,530,544	\$ 4,510,346
	=====	=====	=====	=====	=====	=====	=====	=====	=====
<u>LIABILITES, EQUITY AND OTHER CREDITS</u>									
LIABILITIES:									
Accounts payable	\$ 4,706,201	\$ 531,290	\$ -	\$ 2,483,895	\$ 23,165	\$ -	\$ -	\$ 7,744,551	\$ -
Accrued liabilities	727,879	-	-	19,908	-	-	-	747,787	-
Accrued compensated absences	1,450,000	-	-	157,493	-	-	832,918	2,440,411	-
Due to other governments	-	-	-	-	561,975	-	-	561,975	-
Due to component unit	368,142	-	-	-	11,261	-	-	379,403	-
Due to other funds	-	233,473	-	-	363,051	-	-	596,524	-
Advances from other funds	1,229,617	-	-	3,384,465	-	-	-	4,614,082	-
Deferred revenue	254,035	1,058,505	-	-	-	-	-	1,312,540	-
Deposits payable	-	-	-	-	467,425	-	-	467,425	-
Short-term tax anticipation notes payable	1,234,500	-	-	-	-	-	-	1,234,500	-
Income tax refunds payable	400,000	-	-	-	-	-	-	400,000	-
Long-term debt	-	-	-	5,229,898	-	-	21,729,207	26,959,105	-
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total liabilities	10,370,374	1,823,268	-	11,275,659	1,426,877	-	22,562,125	47,458,303	-
	-----	-----	-----	-----	-----	-----	-----	-----	-----
EQUITY AND OTHER CREDITS:									
Investment in general fixed assets	-	-	-	-	-	10,177,487	-	10,177,487	-
Equity (Accumulated deficit)	-	-	-	(439,705)	-	-	-	(439,705)	4,510,346
Fund balances (deficits):									
Reserved for employees' retirement	-	-	-	-	4,044,881	-	-	4,044,881	-
Reserved for advances	3,384,465	952,872	-	-	-	-	-	4,337,337	-
Reserved for repair and maintenance	-	-	1,200,021	-	-	-	-	1,200,021	-
Unreserved, undesignated	(7,064,265)	1,632,294	184,191	-	-	-	-	(5,247,780)	-
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total equity and other credits	(3,679,800)	2,585,166	1,384,212	(439,705)	4,044,881	10,177,487	-	14,072,241	4,510,346
	-----	-----	-----	-----	-----	-----	-----	-----	-----
TOTAL LIABILITES, EQUITY AND OTHER CREDITS	\$ 6,690,574	\$ 4,408,434	\$ 1,384,212	\$ 10,835,954	\$ 5,471,758	\$ 10,177,487	\$ 22,562,125	\$ 61,530,544	\$ 4,510,346
	=====	=====	=====	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of this financial statement.

CITY OF HIGHLAND PARK, MICHIGAN

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENT TYPES

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Governmental Fund Types</u>			Totals Primary Government (Memorandum Only)	Component Unit
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>		
REVENUES:					
Property taxes	\$ 4,151,838	\$ -	\$ -	\$ 4,151,838	\$ 55,142
Income taxes	2,305,747	-	-	2,305,747	-
Licenses and permits	30,956	-	-	30,956	-
Intergovernmental	3,924,022	1,768,135	-	5,692,157	-
Charges for services	435	-	-	435	-
Fines and forfeitures	711,898	-	-	711,898	-
Rental income	-	-	1,070,690	1,070,690	-
Interest and investment earnings	60,812	66,964	70,158	197,934	11,102
Other – Note 3-D	8,839,232	1,449	-	8,840,681	-
	-----	-----	-----	-----	-----
Total revenues	20,024,940	1,836,548	1,140,848	23,002,336	66,244
	-----	-----	-----	-----	-----
EXPENDITURES:					
Current -					
General government	2,837,178	-	4,823	2,842,001	-
Public safety	4,914,426	490,875	-	5,405,301	-
Public works	701,691	825,037	-	1,526,728	-
Health and welfare	-	273,734	-	273,734	-
Other departments	1,354,599	-	-	1,354,599	-
Employee benefits	2,433,954	-	-	2,433,954	-
Component Unit -					
Tax Increment Finance Authority	-	-	-	-	126,782
Debt Service -					
Principal	280,000	-	395,000	675,000	-
Interest and fiscal changes	669,850	-	733,731	1,403,581	-
Debt issuance costs	22,379	-	-	22,379	-
	-----	-----	-----	-----	-----
Total expenditures	13,214,077	1,589,646	1,133,554	15,937,277	126,782
	-----	-----	-----	-----	-----
Revenues over (under) expenditures	6,810,863	246,902	7,294	7,065,059	(60,538)
	-----	-----	-----	-----	-----
OTHER FINANCING SOURCES (USES):					
Sale of property proceeds	24,482	-	-	24,482	-
Transfers in	-	211,450	-	211,450	-
Transfers out	(20,802)	(190,648)	-	(211,450)	-
	-----	-----	-----	-----	-----
Total other financing sources (uses)	3,680	20,802	-	24,482	-
	-----	-----	-----	-----	-----
Revenues and other sources over expenditures and other (uses)	6,814,543	267,704	7,294	7,089,541	(60,538)
	-----	-----	-----	-----	-----
FUND BALANCES (DEFICITS),					
Beginning of year – RESTATED – Note 4-H	(10,494,343)	2,317,462	1,376,918	(6,799,963)	4,570,884
	-----	-----	-----	-----	-----
FUND BALANCES (DEFICITS),					
End of year	\$ (3,679,800)	\$ 2,585,166	\$ 1,384,212	\$ 289,578	\$ 4,510,346
	=====	=====	=====	=====	=====

The accompanying notes are an integral part of this statement.

CITY OF HIGHLAND PARK, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Governmental Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance - favorable (unfavorable)</u>
REVENUES:			
Property taxes	\$ 4,404,200	\$ 4,151,838	\$ (252,362)
Income taxes	2,380,000	2,305,747	(74,253)
Licenses and permits	25,000	30,956	5,956
Intergovernmental	3,922,562	3,924,022	1,460
Charges for services	10,000	435	(9,565)
Fines and forfeitures	867,000	711,898	(155,102)
Interest and investment earnings	50,000	60,812	10,812
Other	255,000	8,839,232	8,584,232
	-----	-----	-----
Total revenues	11,913,762	20,024,940	8,111,178
	-----	-----	-----
EXPENDITURES:			
Current -			
General government	2,756,672	2,837,178	(80,506)
Public safety	4,888,006	4,914,426	(26,420)
Public works	667,300	701,691	(34,391)
Other departments	1,231,236	1,354,599	(123,363)
Employee benefits	3,462,538	2,433,954	1,028,584
Debt Service -			
Principal	280,000	280,000	-
Interest and fiscal changes	670,010	669,850	160
Debt issuance costs	40,000	22,379	17,621
	-----	-----	-----
Total expenditures	13,995,762	13,214,077	781,685
	-----	-----	-----
Revenues over (under) expenditures	(2,082,000)	6,810,863	8,892,863
	-----	-----	-----
OTHER FINANCING SOURCES (USES):			
Sale of property proceeds	2,100,000	24,482	(2,075,518)
Transfers in	-	-	-
Transfers out	(18,000)	(20,802)	(2,802)
	-----	-----	-----
Total other financing sources (uses)	2,082,000	3,680	(2,078,320)
	-----	-----	-----
Revenues and other sources over expenditures and other (uses)	-	6,814,543	6,814,543
	-----	-----	-----
FUND BALANCES (DEFICITS), Beginning of year – RESTATED – Note 4-H	(10,494,343)	(10,494,343)	-
	-----	-----	-----
FUND BALANCES (DEFICITS), End of year	\$ (10,494,343)	\$ (3,679,800)	\$ 6,814,543
	=====	=====	=====

The accompanying notes are an integral part of this statement.

CITY OF HIGHLAND PARK, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT
ENTERPRISE FUND – WATER AND SEWER

FOR THE YEAR ENDED JUNE 30, 2006

OPERATING REVENUES:	
Charges for service	\$ 5,543,572
Penalties	310,880
Other revenue	66,639

Total operating revenues	5,921,091

OPERATING EXPENSES:	
Sewage and disposal	3,255,275
Water production and distribution	955,983
Water administration	365,821
Repairs and maintenance	-
Bad debt expense (recovery)	(82,992)
Depreciation	238,080

Total operating expenses	4,732,167

Operating income	1,188,924

NON-OPERATING REVENUES (EXPENSES):	
Interest and investment earnings	28,070
Interest expense	(132,685)

Total non-operating expense	(104,615)

Net income	1,084,309
ACCUMULATED DEFICIT, Beginning of year – RESTATED	
– Note 4-H	(1,524,014)

ACCUMULATED DEFICIT, End of year	\$ (439,705)
	=====

The accompanying notes are an integral part of this statement.

CITY OF HIGHLAND PARK, MICHIGAN

STATEMENT OF CASH FLOWS
ENTERPRISE FUND – WATER AND SEWER

FOR THE YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating income	\$ 1,188,924
Adjustments to reconcile operating income to net cash provided by operating activities-	
Depreciation	238,080
Prior Period Adjustment / Accounting Change – Note 4-H	192,507
Changes in operating assets and liabilities-	
Accounts receivable	380,549
Deposits and prepaid items	(3,820)
Accounts payable	(962,125)
Accrued liabilities	(188,237)
Advances from other funds	(424,446)

Net cash provided by operating activities	421,432

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Bond principal payments	(155,000)
Interest paid	(132,685)

Net cash used in capital and related financing activities	(287,685)

CASH FLOWS FROM INVESTING ACTIVITIES:

(Purchases) sales of investments, net	(21,180)
Earnings on investments	28,070

Net cash provided by investing activities	6,890

NET INCREASE IN CASH AND CASH EQUIVALENTS	140,637
---	---------

CASH AND CASH EQUIVALENTS, Beginning of year	293,529
--	---------

CASH AND CASH EQUIVALENTS, End of year	\$ 434,166
--	------------

=====

The accompanying notes are an integral part of this statement.

CITY OF HIGHLAND PARK, MICHIGAN

COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS
AVAILABLE FOR RETIREMENT BENEFITS

FOR THE YEAR ENDED JUNE 30, 2006

ADDITIONS:

Investment income -	
Interest and dividends	\$ 161,157
Net appreciation in fair value of investments	298,502
Less investment expense	(500)

Total investment income	459,159

Contributions -	
Employer	1,783,293
Employees	1,617

Total contributions	1,784,910

Total additions	2,244,069

DEDUCTIONS:

Pension benefits	2,718,038
Health care benefits, net	817,582
Administrative expenses	547

Total deductions	3,536,167

NET DECREASE (1,292,098)

NET ASSETS HELD IN TRUST FOR BENEFITS:

Beginning of year – RESTATED – Note 4-H	5,336,979

End of year	\$ 4,044,881
	=====

The accompanying notes are an integral part of this statement.

CITY OF HIGHLAND PARK, MICHIGAN

INDEX

FOR THE YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

	<u>PAGE</u>
(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	
1-A. Reporting Entity	-9-
1-B. Measurements Focus, Basis of Accounting and Basis of Presentation	-10-
1-C. Assets, Liabilities and Equity	-11-
(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY	
2-A. Budgetary Information	-13-
2-B. Excess of Expenditures Over Appropriations	-14-
2-C. Deficit Fund Equity	-14-
(3) DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS	
3-A. Deposits and Investments	-14-
3-B. Fixed Assets	-16-
3-C. Short-Term Debt	-16-
3-D. Tax Refund Payables	-16-
3-E. Long-Term Debt	-17-
(4) OTHER INFORMATION	
4-A. Property Taxes	-19-
4-B. Risk Management	-19-
4-C. Post-Employment Benefits	-20-
4-D. Defined Contribution Pension Plans	-20-
4-E. Defined Benefit Pension Plans	-20-
4-F. Contingencies	-23-
4-G. Going Concern / Management's Plans	-25-
4-H. Prior Period Adjustments / Accounting Change	-26-
4-G. Subsequent Event	-26-

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and financial reporting, taken as a whole, of the City of Highland Park, Michigan (the "City" or the "government") do not conform to accounting principles generally accepted in the United States of America as applicable to governmental units because:

1. The City has not adopted the financial reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments*, nor Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, which were first effective for the City for the fiscal year ended June 30, 2003. Instead, management has elected to present the financial statements in accordance with the financial reporting model in effect prior to GASB Statement No. 34. This decision was based primarily on monetary priorities established by the State-appointed Emergency Financial Manager (EFM), who was placed in charge of the City due to its severe financial problems. Further information regarding the City's financial condition is provided in other notes.
2. An actuarial valuation in the Employees' Retirement System defined benefit pension plan has not been performed since 1999; a valuation was completed for the Police and Fire Retirement System in 2003. As a result, the City is unable to determine the net pension obligations of those plans or to provide the required financial statement disclosures, including the presentation of three-year trend information.
3. The general fixed assets account group does not include all assets acquired prior to June 30, 1999, nor does the City have adequate or complete accounting records, or a physical inventory, to support the general fixed assets reported. Also, the City does not have adequate or complete accounting records to support the fixed assets reported in the enterprise fund or physical inventory records to substantiate their existence or value.
4. The City does not have adequate or complete accounting records to support the estimated liabilities for certain contingencies of the City, including claims against the City and accrued compensated absences payable to former employees.

1-A. Reporting Entity

The City is a municipal corporation that under normal circumstances is governed under a mayor/council form of government. However, as a result of the City's significant financial problems, the Governor appointed an Emergency Financial Manager (EFM) in June 2001 to run the City. In April 2005, a new EFM was appointed for at least an additional two-year period.

These financial statements present the government and its blended competent unity, and its single discretely presented component unit. Component units are entities for with the government is consider to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in separate columns in the combined financial statements, to emphasis they are legally separate from the City. The City's component units have June 30 year-ends.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

(Continued)

Blended Component Unit. The Building Authority is governed, under normal circumstances, by a board appointed by the City Council; however, it too is currently governed by the State-appointed Emergency Financial Manager. The Building Authority's sole function is to oversee the financing and acquisition/construction of the City's public buildings; therefore, it is reported as if it were part of the primary government.

Discretely Presented Component Unit. The Tax Increment Finance Authority (TIFA) is responsible for certain revitalization projects and activities in the City. The members of the TIFA's governing board are appointed by the government. A summary of the TIFA's unaudited financial information has been included in these financial statements.

1-B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Account groups are a reporting device to account for certain assets and liabilities of the governmental fund not recorded directly in those funds.

The government has the following fund types and account groups:

Governmental funds are used to account for the government's general activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for non-matured interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlement and shared revenues are recorded at the time of receipt or earlier if the "susceptible to accrual" criteria are met. Expenditures-driven grants, if any, are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

The *debt service fund* accounts for the servicing of general long-term debt not being financed by proprietary funds.

Proprietary funds are accounted for on the flow of economic resource measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued prior to November 30, 1989, in accounting and reporting for its proprietary operations.

The City has one proprietary fund. The *enterprise fund* accounts for those operations that are financed and operated in a manner similar to private business or where management has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement.

The *pension trust funds* are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. The pension trust funds account for the assets of the government's single-employer defined benefit pension plans.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Account Groups. The *general fixed assets account group* is used to account for fixed assets not accounted for in proprietary or trust funds. The *general long-term debt account group* is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

1-C. Assets, Liabilities and Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three-months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Pension trust funds are authorized under the State's Pension Investment Act, as amended, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair market value.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion and interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds or component units."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources. Substantial portions of the outstanding interfund borrowings occurred prior to the appointment of the EFM, were not authorized under State law, and may result in fines and /or penalties to the City.

Fixed Assets

Fixed assets used in governmental fund types of the government are recorded in the General Fixed Assets Account Group at cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment are depreciated in the proprietary fund using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings, plants and mains	75
Building improvements	25-50
Machinery and equipment	15

Compensated Absences

It is the government's policy to permit eligible employees to accumulate earned but unused vacation and sick pay benefits. Vacation and sick pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

Long-Term Obligations

The government reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in those funds as appropriate.

Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Reservations of retained earnings, if any, are limited to outside third-party restrictions. Designations of fund balance, if any, represent tentative management plans that are subject to change.

Amounts reserved for advances to other funds may be subject to write-off or adjustment based on management's assessment of the likelihood of the payment and the impact of the write-offs.

Memorandum Only - - Total Columns

Total columns on the financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund elimination have not been made in the aggregation of this data.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary Information

An annual budget is adopted on the modified accrual basis consistent with generally accepted accounting principles for the general fund. Budgets were not adopted for the special revenue funds. All annual appropriations lapse at fiscal year-end. Currently, the budgets are adopted by the directive of the EFM.

The appropriated budget is prepared by fund, function and department. The legal level of budgetary control is the department level. Certain supplemental budgetary appropriations were made during the year, which were not considered material. The government does not utilize encumbrance accounting.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

2-B. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2006, expenditures exceeded appropriations as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
General government	\$ 2,756,672	\$ 2,837,178	\$ (80,506)
Public safety	4,888,006	4,914,426	(26,420)
Public works	667,300	701,691	(34,391)
Other departments	1,231,236	1,354,599	(123,363)
Transfers out	18,000	20,802	(2,802)

As noted above, the City did not adopt budgets for its special revenues funds as required under State statutes.

2-C. Deficit Fund Equity

At June 30, 2006, the General Fund had an unreserved deficit fund balance of \$7,064,265; the total fund balance deficit was \$3,679,800. Also at June 30, 2006, the Water and Sewer enterprise fund had a total retained deficit of \$439,705; after considering the fund's investment in fixed assets net of related debt of \$1,812,184, its working capital deficit was \$2,251,889.

(3) DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

3-A. Deposits and Investments

A reconciliation of cash, cash equivalents and investments as shown in the Combined Balance Sheet follows:

Cash and cash equivalents	\$ 4,382,902
Cash and cash equivalents – restricted	586,783
Investments	5,114,560

	\$ 10,084,245
	=====
Bank deposits	\$ 4,378,222
Investments in securities and mutual funds	5,701,343
Cash on hand	4,680

	\$ 10,084,245
	=====

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

Custodial Credit Risk – Deposits. For deposits, custodial credit risk is the risk, that in the event of a bank failure, the City's deposits may be returned to the government. At year-end, \$4,489,763 of the City total bank balance of \$4,389,763 (total book balance was \$4,382,902) was exposed to custodial credit risk as it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the large amounts of cash held on deposits and the limits of FDIC insurance, it is impractical to insure all of its bank deposits. As result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk – Investments. Following is a summary of the City's Investments as of June 30, 2006:

Money market accounts	\$ 71,225
U.S. treasuries	1,313,566
Government external investment pool	167,412
Domestic equities (pension)	2,697,861
Domestic equity mutual fund (pension)	259,868
Cash value of life insurance (pension)	604,628

Total	\$ 5,114,560
	=====

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. As of June 30, 2006, none of the City's investments, excluding the government external investment pool and money market accounts, which are not subject to custodial credit risk were exposed to risk since the securities are held in the City's name by the counterparty. The City has no policy regarding custodial credit risk of the investments.

Credit risk. The City's investments in U.S. treasuries, money market accounts and external investment pool are not rated. The City has no policies regarding credit risk.

Concentration of Credit Risk. At June 30, 2006, the investment portfolio was concentrated (i.e., five percent or more of the portfolio in the securities of single issue or issuer) in the cash value of life insurance (which is policy on the life of a City resident that has a current death benefit of approximately \$1,441,000). The City has no policies regarding the concentration of credit risk.

Interest Rate Risk. As of June 30, 2006, all of the City's investments in U.S. treasuries, as well as its investments in money market accounts and external investment pool, had maturities of less than one-year. The City has no policies regarding interest rate risk.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

3-B. Fixed Assets

Following is a summary of changes in general fixed assets:

	Balance at June 30, 2005	Additions	Reductions	Balance at June 30, 2006
Land	\$ 582,270	\$ -	\$ -	\$ 582,270
Buildings	8,966,225	-	-	8,966,225
Vehicles	391,754	-	-	391,754
Equipment	237,238	-	-	237,238
	-----	-----	-----	-----
Totals	\$ 10,177,487	\$ -	\$ -	\$ 10,177,487
	=====	=====	=====	=====

A summary of enterprise fund fixed assets at June 30, 2006, is as follows:

Land, buildings, plants and mains	\$ 9,912,523
Machinery and equipment	1,514,504

	11,427,027
Less: Accumulated depreciation	(4,384,945)

Total	\$ 7,042,082
	=====

3-C. Short-Term Debt

As of June 30, 2006, the City's held outstanding short-term tax anticipation notes in the amount of \$1,234,500. These notes mature on December 31, 2006 and carry interest at 7.78 percent.

3-D. Tax Refund Payables

As of June 30, 2006, the City's financial statements reflect \$400,000 in income tax refund payables. This balance is an estimate of amounts owed by the City to individuals and businesses for overpayment of taxes. The balance is significantly lower than the balance reflected in prior years, due primarily to a significant forgiveness of a tax refund payable to a single business. The amount forgiven was approximately \$8.7 million, and is reflected as other revenues in the General Fund. If not for this transaction, the City would have reflected a General Fund annual operating deficit for the fiscal year ended June 30, 2006 of approximately \$1.9 million.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

3-E. Long-Term Debt

The following is a summary of the City's debt outstanding as of June 30, 2006:

	<u>Number of Issues</u>	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Enterprise Fund</u>	<u>Principal Outstanding General Long-Term Debt</u>
Building Authority bonds	1	7.75%	2018	\$ -	\$ 9,170,000
Pension bonds	1	2.15-6.875%	2034	-	5,925,000
Fiscal stabilization bonds	2	2.0-6.0%	2023	-	4,985,000
State emergency loan	1	variable	2022	-	1,000,000
Revenue bonds	1	2.5%	2029	5,229,898	-
Lease obligations	1	-	2009	-	177,415
Compensated absences	1	-	-	-	832,918
Lawsuits and claims	-	-	-	-	471,792
				-----	-----
				\$ 5,229,898	\$ 22,562,125
				=====	=====

Annual debt service requirements to maturity for general long-term debt, including interest of \$14,398,954 are as follows:

	<u>Building Authority Bonds</u>	<u>Pension/Fiscal Stabilization Bonds</u>	<u>State Emergency Loan</u>	<u>Lease Obligations</u>	<u>Total</u>
2007	\$ 1,127,538	\$ 895,424	\$ -	\$ 67,530	\$ 2,090,492
2008	1,130,019	900,939	-	67,530	2,098,488
2009	1,127,594	895,608	-	67,530	2,090,732
2010	1,128,750	894,289	-	67,530	2,090,569
2011	1,131,219	896,846	-	-	2,028,065
2012-16	5,644,656	4,527,171	300,000	-	10,471,827
2017-21	3,387,507	4,457,434	500,000	-	8,344,941
2022-26	-	2,724,610	200,000	-	2,924,610
2027-31	-	2,197,945	-	-	2,197,945
2032-35	-	1,318,700	-	-	1,318,700
	-----	-----	-----	-----	-----
	14,677,283	19,708,966	1,000,000	270,120	35,656,369
Interest	(5,507,283)	(8,798,966)	-	(92,705)	(14,398,954)
	-----	-----	-----	-----	-----
	\$ 9,170,000	\$10,910,000	\$ 1,000,000	\$ 177,415	\$21,257,415
	=====	=====	=====	=====	=====

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

Annual debt service requirements to maturity for enterprise fund revenue bonds, including interest of \$1,738,667, are as follows:

2007	\$ 288,747
2008	289,685
2009	290,497
2010	291,185
2011	291,747
2012-16	1,453,050
2017-21	1,454,925
2022-26	1,449,425
2027-30	1,159,304

	6,968,565
Interest	1,738,667

	\$ 5,229,898
	=====

The following is a summary of changes in general long-term debt for the fiscal year ended June 30, 2006:

	Balance at June 30, 2005	Increases	Deductions	Balance at June 30, 2006
General long-term debt				
Building Authority Bonds	\$ 9,565,000	\$ -	\$ (395,000)	\$ 9,170,000
Pension bonds	6,000,000	-	(75,000)	5,925,000
Fiscal stabilization bonds	5,190,000	-	(205,000)	4,985,000
State emergency loan	1,000,000	-	-	1,000,000
Lease obligations	229,049	-	(51,634)	177,415
Compensated absences	832,918	-	-	832,918
Lawsuits and claims	648,453	94,235	(270,896)	471,792
	-----	-----	-----	-----
	\$23,465,420	\$ 94,235	\$ (997,530)	\$22,562,125
	=====	=====	=====	=====
Enterprise fund				
Revenue bonds	\$ 5,384,898	\$ -	\$ (155,000)	\$ 5,229,898
	=====	=====	=====	=====

Further information regarding the lawsuits and claims are presented in Note 4-F. Payments on lawsuits and claims are reported as legal costs under general government expenditures in the general fund.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

(4) OTHER INFORMATION

4-A. Property Taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Wayne County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for the 2005 levy were assessed and equalized at \$173,707,365 (not including properties subject to Industrial Facilities Tax exemption). The City's general operating tax rate of fiscal 2005-06 was 19.9880 mills with an additional 9.600 and 2.9982 mills levied for judgments and refuse collection, respectively.

Property taxes for the TIFA are derived from a tax increment financing agreement between the TIFA and other taxing districts. Under this arrangement, the TIFA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City, which are within the TIFA district. Property taxes are recognized in the fiscal year in which they are levied.

4-B. Risk Management

The City is exposed to various risks of loss related to property damage, torts, errors and omissions, and employee injuries, as well as for medical benefits provided to employees. Following is a summary of the City's risk management programs:

General Liability. Prior to fiscal 2002-03, the City was self-insured for claims relating to general and auto liability, auto physical damage, and property loss claims. Beginning in fiscal 2002-03, the City purchased certain coverage through commercial carriers. No reserves have been established by the City to fund any self-insured claims. The majority of any such claims are funded through judgment levies placed on the tax roll.

Workers' Compensation. The City is self-insured for workers' compensation claims. The liability for these claims is paid currently by the City; no reserves have been established.

Medical Claims. The City had several commercial health insurance carriers through January 2001. Several of those carriers cancelled their health care coverage policies at that time, leaving certain employees without health care insurance. All employees were transferred to a new insurance carrier by May 2001. An unknown liability exists for claims incurred by uninsured employees from January 2001 to May 2001.

Life and Dental Insurance. The City's life and dental insurance coverage for eligible employees was cancelled in January 2001; the City is now self-insured for these benefits. An unknown liability exists for claims incurred by uninsured employees from January 2001 through June 2002. No reserves have been established by the City to fund these potential liabilities and no liabilities have been recorded as of June 30, 2006.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

4-C. Post-Employment Benefits

The City provides post-employment life and health insurance coverage pursuant to union contracts, paying various percentages for these benefits depending on the particular contract. The City is self-insured for post-employment life insurance coverage. Certain retirees have co-pay obligations for these benefits, as provided by contract. During the fiscal year ended June 30, 2006, the net cost for post-employment benefits was \$1,303,852.

4-D. Defined Contribution Pension Plans

The City has a defined contribution pension plan for all non-public safety employees. Under such plan, benefits depend solely on amounts contributed to the plan along with investment earnings thereon. As established by the City, the employer contributes an amount equal to nine percent of employees' earnings and employees contribute six percent. For the year ended June 30, 2006, the City's contribution was \$56,349.

The district court is contributing to an unrelated defined contribution pension plan that was originally established, but then discontinued by the City. Under this plan, 6.5 percent was contributed on behalf of the employer; employee contributions are voluntary. For the fiscal year June 30, 2006, the employer's contribution was \$13,825.

In addition to the above, the City has funds on deposit with an earlier defined contribution plan vendor, but has not been able to reconcile the account or have it moved to another vendor/trustee. Until recently, the sole trustee of this plan was a named individual who was the City's former finance director. The City is actively pursuing this matter to determine the plan assets are intact and verify the employee accounts.

4-E. Defined Benefit Pension Plans

The City has three benefit pension plans, which are summarized as follows:

General Employees' Pension Plan. The City of Highland Park Employees' Retirement System (ERS) is a single-employer defined benefit pension plan covering non-public safety employees of the City. As of November 1986, the City closed the ERS to all employees hired after that date. Vested members of the ERS as of that date were given the option of freezing their accrued defined benefit, payable at their normal retirement date, or joining the defined contribution plan. Members electing to join the defined contribution plan were refunded their ERS contributions and allowed roll them into that plan.

The ERS financial statements are prepared using the accrual basis of accounting. Member contributions, if any, are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The City of Highland Park is the administrator of the plan. Administrative costs of the plan are financed through investment earnings or paid by the City. The plan is included as pension trust fund in the City's financial statements; a stand-alone financial report of the plan has not been issued. Plan amendments are under the authority of the City of Highland Park ordinances.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

The prior Pension Board made certain plan investments that violated Public Act 314. Given State statutory requirements, the EFM has undertaken a plan to achieve compliance with respect to this investment that is financially prudent, although it may take several years to resolve.

An actuarial valuation of the plan has not been performed since June 30, 1999. The City actual cash contributions during the fiscal year was \$1,409. The City has not determined or estimated its net pension obligation as required under generally accepted accounting principles.

Police and Fire Retirement System. The City of Highland Park Policemen and Firemen Retirement System (PFRS) is a single-employer defined benefit pension plan covering public safety officers employed of the City. This plan was closed as of November 1985 to new hires; active members at that time were terminated and enrolled und the MERS plan, which is described below.

The PFRS financial statements are prepared using the accrual basis of accounting. Member contributions, if any, are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The City of Highland Park is the administrator of the plan. Administrative costs of the plan are financed through investment earnings or paid by the City. The plan is included as a pension trust fund in the City's financial statements; a stand-alone financial report of the plan has not been issued. Plan amendments are under the authority of the City of Highland Park ordinances.

The City recorded made cash contributions during the fiscal year of \$1,781,884. These cash payments were made possible through general operations of the City. The City has not determined or estimated its net pension obligation as required under generally accepted accounting principles.

During fiscal 2003-04, certain plan retirees filed suit against the City to increase benefits pursuant to an agreement from 1996. After lengthy court proceedings, bonus payments originally ordered by the court were reversed and benefit payments were returned to the authorized base levels. Subsequently, the Highland Park Policeman and Firemen Retirement Association and one retiree, as putative class representative, filed an appeal against the City and the Board of Trustees and the City filed a cross-appeal. The Court of Appeals dismissed the appeal (and, therefore, the cross appeal) and informed appellants that they could file a motion for leave to appeal the denial of plaintiffs' motion to intervene only. Plaintiffs disregarded the Court's instruction and filed a Motion for Reconsideration, which was granted in part, allowing the appeal to continue on behalf of the one retiree only, but not as class action. The Case continues, as a settlement conference is scheduled for January, 2007, and which time the judge will set a date for trial to be begin, if necessary.

An actuarial valuation of the plan as of December 31, 2002, was completed and issued during 2003. The actuarial assumptions included in a rate of return on the investment of present and future assets of 7.5%. During the year, the City had an actuary complete a summary valuation of the present value of the future benefits unfunded liability or the Actuarial Accrued Liability (AAL) of the Plan as of June 30, 2005, which approximated \$8.9 million. The actuarial assumptions included in a rate of return on the investment of present and future assets of 8.0%

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

Schedule of Funding Progress
(dollar amounts in thousands)

Actuarial Valuation Date	(a) Accrued Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	Funded Ratio Total
12/31/2002	\$ 321	\$ 11,454	\$ 11,133	2.8%
12/31/1999	3,452	15,845	12,393	21.8%
12/31/1995	4,970	16,432	11,462	30.2%

Michigan Municipal Employees Retirement System (MERS). The City also participates in MERS, an agent multiple-employer plan administered by the MERS Retirement Board, which establishes and amends the benefit provisions of the plan participants. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; covered employees, which are limited to public safety officers, are also required to contribute. The employer contribution requirements are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the City.

The City made no (i.e., zero) payments to MERS for employer contributions for the fiscal year ended June 30, 2006.

The latest actuarial valuation dated December 31, 2005 uses the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increase of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2005 was 30 years.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

Schedule of Funding Progress
(dollar amounts in thousands)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	Funded Ratio Total	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
12/31/2002	\$ 3,951	\$ 21,682	\$ 17,731	18%	\$ 1,337	1326%
12/31/2003	8,542	23,091	14,549	37%	1,441	1010%
12/31/2004	7,644	23,544	15,901	32%	1,297	1226%
12/31/2005	6,295	23,686	17,391	27%	1,103	1576%

4-F. Contingencies

Lawsuits. The City is a defendant in various lawsuits and asserted claims. A provision in the amount of \$471,792 has been recorded in the General Long-term Debt Account Group for the estimated obligation for certain of these lawsuits and asserted claims. Management and legal counsel believe the City's ultimate exposure with respect to these actions is not determinable. No provision has been made in the accompanying financial statements for additional potential liabilities, if any, that may arise from the suits and asserted claims, or any unasserted claims that relate to current or prior activities of the City.

Income Tax Refunds. The City has recorded a liability in the General Fund totaling approximately \$400,000 of income tax refund claims filed by various taxpayers. Fiscal years 2000 through 2004 refund claims were refinanced with funds obtained through fiscal stabilization bonds and other general fund resources.

Public Act 51 Noncompliance. In July 2000, the State of Michigan began withholding Public Act 51 shared revenues for the City due to noncompliance with the Act. This came about when the City failed to repay an authorized lending of Act 51 funds from the Major and Local Street Special Revenue Funds to the General Fund for tornado damage repairs with the understanding that these loans would be repaid when Federal disaster reimbursements were received. Despite its agreement to repay the monies, the prior elected administration used the Federal reimbursements for other purposes and did not repay the Act 51 loan. Beginning July 2002, the State of Michigan Government began releasing current shared revenues to the City, but not the previously withheld funds due to Act noncompliance.

By agreement during fiscal year 2004-05, the State of Michigan assessed a penalty of \$1,084,176 and applied it against the Act 51 funds being withheld. This step reduced the receivable and related deferred revenue recorded in the accompanying financial statements for the Major and Local Street Funds to \$948,953. The agreement allows that if Act 51 is amended to forgive this forfeiture within three years of the date of the agreement and forfeited amount will be returned to the City.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

The agreement also approved \$508,004 of prior expenditures for clean-up activities, reducing the amount of the loans to be repaid by the General Fund from \$1,300,956 to \$792,952. It also established a repayment plan that requires monthly payments of at least \$1,000 from non-Act 51 funds until the balance is repaid in full. As of June 30, 2006, the outstanding loan balance was \$748,441, which is reported as advances receivable in the Major and Local Streets Funds and advances payable in the General Fund.

Police and Fire Defined Benefit Pension Plan. During fiscal year 2003-04, it was discovered that six retirees receiving pension benefits for the City's Police and Fire Retirement Systems (the "System") also were receiving benefits from the City's MERS plan in violation of the Municipal Employees Retirement Act of 1984, restated verbatim as Section 6(2) of the MERS Plan Document, effective October 1, 1996. Section 6(2) clearly prohibits a municipal employee, who is a member of MERS, from being a member of another municipal retirement or pension plan. Based on the discovery and suspecting fraudulent acts by the six retirees and others, the EFM suspended benefit payments from the System to the retirees in question, reported the alleged fraud to the Michigan Department of Treasury, and filed suit in Wayne County Circuit Court, requesting a declaratory judgment that payments from the System should be terminated.

The defendants claim that a settlement agreement from a prior lawsuit permitted their actions, have filed a counterclaim. The settlement agreement relied upon by the defendants violates the Michigan Public Employment Relations Act, which imposes a duty of collective bargaining on public employers and unions with respect to those matters that constitute mandatory subjects of bargaining, such as pensions. The exclusive bargaining agent for prior lawsuit's plaintiffs, the Police Officers Labor Council, did not authorize the filing of the prior suit, the settlement agreement or the receipt of double benefits.

The defendants' initial counterclaim contained a defamation count against the EFM and Interim Finance Director in their individual and official capacities. The defendants were granted leave to file an amended counterclaim that no longer sued the EFM and Interim Finance Director in their official capacities, but only as individuals. The defendants filed a separate suit in the Court of Claims alleging defamation against the EFM and Interim Finance Director in their official capacities, and against the Emergency Loan Board. Summary disposition was granted on behalf of each and the Court of Claims case was dismissed.

In addition to and beyond the legal matters discussed above, the Police and Fire defined benefit pension plan may not have sufficient reserves to pay future pension benefits much beyond the next fiscal year. The City also does not have sufficient resources to fund current and past due required contributions.

Compensated Absences. One of the City's more contentious issues involved employee claims for earned, but unused sick and vacation time. Between January 2002 and December 2003, the City received over 100 claims from employees and former employees through the Michigan Wage and Hour Bureau seeking payment for related reported time worked. The claims were disputed on the basis that they were overstated, unsupported and, in certain instances, noncompliant with applicable labor agreements. The greatest obstacle in defending these cases has been the complete lack of recordkeeping regarding these benefits.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

Going forward, wage and hour liabilities have been largely resolved by collective bargaining agreements that limit banked time and/or specify methods of payout of forfeiture, which are manageable by the City. While employees still have banked time, the days of unsupported allegations of huge accrued amounts subject to immediate payout are likely a thing of the past.

4-G. Going Concern / Management's Plans

The City prepared a formal deficit reduction plan and submitted it to the State of Michigan Department of Treasury ("the State") in August 2005; the State approved the City's plan in October 2005. The plan included many items and called for the General Fund operating deficit to be eliminated by June 30, 2009. The following items were accomplished:

- Reduction/elimination of numerous contractual vendors saving several hundred thousand dollars annually.
- Negotiated the forgiveness of the income tax refund due Chrysler Corporation totaling \$8,664,146.
- Reviewed the rubbish contract and discovered the City was being overcharged due to the use of estimated not actual households. The annual savings totaled approximately \$150,000.

The items noted above and the prior period adjustments noted in note 4H resulted in a decrease in the cumulative General Fund deficit from \$15,614,426 at June 30, 2005 to \$3,679,799. The annual operating deficit also decreased from approximately \$2,787,000 for the year ended June 30, 2005 to approximately \$1,951,000 at June 30, 2006.

The deficit elimination plan filed in August 2005 also called for the following revenue enhancement/expenditure reductions:

- New red light enforcement equipment and ordinance enforcement efforts to generate additional court revenues.
- New income tax director implementing new collection procedures to generate additional income tax revenue.
- Creation of a special assessment district for street lighting.
- Cost reductions in the public safety department and in healthcare insurance.

CITY OF HIGHLAND PARK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
(Continued)

4-H. Prior Period Adjustments / Accounting Change

During the fiscal year ended June 30, 2006, the City adopted a new method for accounting for unpaid pension contributions from prior years that have not been paid. In addition, the Water and Sewer Enterprise Fund eliminated a previously recorded accrued liability for sick and vacation payouts that were paid in a previous year. The effects of the prior period adjustments and accounting change are as follows:

	<u>General</u>	<u>General Employees' Retirement System</u>	<u>Police and Fire Retirement System</u>	<u>Enterprise - Water and Sewer</u>
Fund Balance/Retained Earnings June 30, 2005	\$(15,614,426)	\$ 5,968,187	\$ 3,861,467	\$ (1,716,521)
Elimination of sick and vacation liability	-	-	-	192,507
Elimination of unpaid pension contributions - MERS	627,408	-	-	-
Elimination of unpaid pension contributions	4,492,675	(924,802)	(3,567,873)	-
	-----	-----	-----	-----
Fund Balance/Retained Earnings June 30, 2005, as RESTATED	\$(10,494,343)	\$ 5,043,385	\$ 293,594	\$ (1,524,014)
	=====	=====	=====	=====

4-I. Subsequent Event

In September 2006, the City received an emergency loan totaling \$1,000,000 from the State of Michigan Department of Treasury. The loan was used to pay two payrolls in October 2006, fund income tax refund checks and pay various vendors with outstanding invoices over one year old.

* * * * *

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

GENERAL FUND

CITY OF HIGHLAND PARK, MICHIGAN

SCHEDULE OF EXPENDITURES AND TRANSFERS OUT
BUDGET AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance - favorable (unfavorable)</u>
GENERAL GOVERNMENT:			
City Council	\$65,000	\$64,913	\$87
Administration	171,400	219,263	(47,863)
District Court	597,319	585,976	11,343
Finance	307,700	316,281	(8,581)
Audit	35,000	24,685	10,315
Citizens complaints	2,278	2,277	1
Data processing	67,700	57,694	10,006
Income tax	86,200	81,371	4,829
City assessor	76,000	73,697	2,303
Legal	282,000	421,886	(139,886)
Judgments	352,000	298,675	53,325
City clerk	117,525	118,075	(550)
Human resources	68,500	71,434	(2,934)
Treasurer	134,150	109,329	24,821
Facilities	393,900	391,622	2,278
	-----	-----	-----
Total general government	2,756,672	2,837,178	(80,506)
	-----	-----	-----
PUBLIC SAFETY:			
Public safety	4,888,006	4,914,426	(26,420)
	-----	-----	-----
Total public safety	4,888,006	4,914,426	(26,420)
	-----	-----	-----
PUBLIC WORKS:			
Public service administration	220,300	253,363	(33,063)
Rubbish collection	447,000	448,328	(1,328)
	-----	-----	-----
Total public works	667,300	701,691	(34,391)
	-----	-----	-----
OTHER DEPARTMENTS:			
Inspection / Engineering	31,000	34,691	(3,691)
Code enforcement	33,236	34,699	(1,463)
Utilities	1,015,000	1,116,834	(101,834)
Parks and recreation	125,000	113,460	11,540
Community development	27,000	54,915	(27,915)
	-----	-----	-----
Total other departments	1,231,236	1,354,599	(123,363)
	-----	-----	-----

CITY OF HIGHLAND PARK, MICHIGAN

SCHEDULE OF EXPENDITURES AND TRANSFERS OUT
BUDGET AND ACTUAL – GENERAL FUND
(CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance - favorable (unfavorable)
EMPLOYEE BENEFITS AND OTHER:			
Pension contributions	2,703,000	1,798,459	904,541
Workers compensation	297,983	242,035	55,948
Employee benefits	450,000	391,349	58,651
Other charges	11,555	2,111	9,444
	-----	-----	-----
Total employee benefits and other	3,462,538	2,433,954	1,028,584
	-----	-----	-----
DEBT SERVICE:			
Principal and Interest	950,010	949,850	160
Debt issuance costs	40,000	22,379	17,621
	-----	-----	-----
Total debt service	990,010	972,229	17,781
	-----	-----	-----
TRANSFERS OUT	18,000	20,802	(2,802)
	-----	-----	-----
TOTAL EXPENDITURES AND TRANSFERS OUT	\$14,013,762	\$13,234,879	\$778,883
	=====	=====	=====

SPECIAL REVENUE FUNDS

CITY OF HIGHLAND PARK, MICHIGAN

COMBINING BALANCE SHEET

SPECIAL REVENUE FUNDS

AS OF JUNE 30, 2006

	Major Streets	Local Streets	Local Law Enforcement Block Grant	Demolition	Drug Forfeiture	Community Projects	Federal Account	Community Development Block Grant	CDBG Program Income	Total
ASSETS										
ASSETS:										
Cash and cash equivalents	\$1,379,319	\$547,447	\$36,642	\$1,048	\$19,238	\$ -	\$ -	\$3,558	\$46,863	\$2,034,115
Due from other governments	863,292	247,542	55,761	-	-	-	-	47,036	-	1,213,631
Due from other funds	-	207,816	-	-	-	-	-	-	-	207,816
Advances to other funds	143,563	604,878	4,217	63,835	-	34,114	69,102	-	33,163	952,872
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
TOTAL ASSETS	\$2,386,174	\$1,607,683	\$96,620	\$64,883	\$19,238	\$34,114	\$69,102	\$50,594	\$80,026	\$4,408,434
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
LIABILITES AND FUND BALANCES										
CURRENT LIABILITIES:										
Accounts payable	\$438,009	\$1,250	\$67,094	\$ -	\$ -	\$ -	\$ -	\$24,937	\$ -	\$531,290
Due to other funds	207,816	-	-	-	-	-	-	25,657	-	233,473
Deferred revenue	737,373	211,580	29,526	-	-	-	-	-	80,026	1,058,505
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total liabilities	1,383,198	212,830	96,620	-	-	-	-	50,594	80,026	1,823,268
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
FUND BALANCES:										
Reserved for advances	143,563	604,878	4,217	63,835	-	34,114	69,102	-	33,163	952,872
Unreserved, undesignated (deficit)	859,413	789,975	(4,217)	1,048	19,238	-	-	-	(33,163)	1,632,294
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total fund balances	1,002,976	1,394,853	-	64,883	19,238	34,114	69,102	-	-	2,585,166
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
TOTAL LIABILITES AND FUND BALANCES	\$2,386,174	\$1,607,683	\$96,620	\$64,883	\$19,238	\$34,114	\$69,102	\$50,594	\$80,026	\$4,408,434
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

CITY OF HIGHLAND PARK, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Major Streets</u>	<u>Local Streets</u>	<u>Local Law Enforcement Block Grant</u>	<u>Demolition</u>	<u>Drug Forfeiture</u>	<u>Community Projects</u>	<u>Federal Account</u>	<u>Community Development Block Grant</u>	<u>CDBG Program Income</u>	<u>Total</u>
REVENUES:										
Intergovernmental	\$807,281	\$217,793	\$469,950	\$ -	\$ -	\$ -	\$ -	\$126,221	\$146,890	\$1,768,135
Interest and investment earnings	45,268	20,166	123	41	743	-	-	-	623	66,964
Other	-	-	-	1,449	-	-	-	-	-	1,449
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total revenues	852,549	237,959	470,073	1,490	743	-	-	126,221	147,513	1,836,548
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
EXPENDITURES:										
Current -										
Public safety	-	-	490,875	-	-	-	-	-	-	490,875
Public works	726,714	98,323	-	-	-	-	-	-	-	825,037
Health and welfare	-	-	-	-	-	-	-	126,221	147,513	273,734
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total expenditures	726,714	98,323	490,875	-	-	-	-	126,221	147,513	1,589,646
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Revenues over (under) expenditures	125,835	139,636	(20,802)	1,490	743	-	-	-	-	246,902
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
OTHER FINANCING SOURCES (USES):										
Transfers in	-	190,648	20,802	-	-	-	-	-	-	211,450
Transfers out	(190,648)	-	-	-	-	-	-	-	-	(190,648)
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total other financing sources (uses)	(190,648)	190,648	20,802	-	-	-	-	-	-	20,802
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Revenues and other sources over expenditures and other (uses)	(64,813)	330,284	-	1,490	743	-	-	-	-	267,704
FUND BALANCES, Beginning of year	1,067,789	1,064,569	-	63,393	18,495	34,114	69,102	-	-	2,317,462
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
FUND BALANCES, End of year	\$1,002,976	\$1,394,853	\$ -	\$64,883	\$19,238	\$34,114	\$69,102	\$ -	\$ -	\$2,585,166
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

FIDUCIARY FUNDS

CITY OF HIGHLAND PARK, MICHIGAN

COMBINING BALANCE SHEET
FIDUCIARY FUNDS

AS OF JUNE 30, 2006

	Trust Funds			Agency Funds				
	General Employees' Retirement <u>System</u>	Police and Fire Retirement <u>System</u>	Total Trust Funds	Current <u>Tax</u>	Fire Insurance <u>Escrow</u>	30 th District <u>Court</u>	Total Agency Funds	<u>Total</u>
<u>ASSETS</u>								
ASSETS:								
Cash and cash equivalents	\$147,568	\$277,368	\$424,936	\$616,752	\$190,680	\$319,535	\$1,126,967	\$1,551,903
Investments	3,500,959	61,977	3,562,936	-	-	-	-	3,562,936
Due from other funds	-	-	-	-	276,745	-	276,745	276,745
Prepaid items	30,454	49,720	80,174	-	-	-	-	80,174
	-----	-----	-----	-----	-----	-----	-----	-----
TOTAL ASSETS	\$3,678,981	\$389,065	\$4,068,046	\$616,752	\$467,425	\$319,535	\$1,403,712	\$5,471,758
	=====	=====	=====	=====	=====	=====	=====	=====
<u>LIABILITES AND FUND BALANCES</u>								
LIABILITIES:								
Accounts payable	\$3,215	\$19,950	\$23,165	\$ -	\$ -	\$ -	\$ -	\$23,165
Accrued liabilities	-	-	-	-	-	-	-	-
Due to other governments	-	-	-	490,963	-	71,012	561,975	561,975
Due to TIFA	-	-	-	11,261	-	-	11,261	11,261
Due to other funds	-	-	-	114,528	-	248,523	363,051	363,051
Deposits payable	-	-	-	-	467,425	-	467,425	467,425
	-----	-----	-----	-----	-----	-----	-----	-----
TOTAL LIABILITIES	3,215	19,950	23,165	616,752	467,425	319,535	1,403,712	1,426,877
	-----	-----	-----	-----	-----	-----	-----	-----
FUND BALANCES:								
Reserved for employees' retirement	3,675,766	369,115	4,044,881	-	-	-	-	4,044,881
	-----	-----	-----	-----	-----	-----	-----	-----
TOTAL LIABILITES AND FUND BALANCES	\$3,678,981	\$389,065	\$4,068,046	\$616,752	\$467,425	\$319,535	\$1,403,712	\$5,471,758
	=====	=====	=====	=====	=====	=====	=====	=====

CITY OF HIGHLAND PARK, MICHIGAN

COMBINING STATEMENT OF NET ASSETS
AVAILABLE FOR RETIREMENT BENEFITS

AS OF JUNE 30, 2006

	General Employees' Retirement <u>System</u>	Police and Fire Retirement <u>System</u>	<u>Total</u>
ASSETS:			
Investments, at fair value -			
Money market accounts	\$2,896,331	\$61,977	\$2,958,308
Cash surrender value of life insurance	604,628	-	604,628
	-----	-----	-----
Total investments	3,500,959	61,977	3,562,936
	-----	-----	-----
Cash and cash equivalents	147,568	277,368	424,936
Prepaid items	30,454	49,720	80,174
	-----	-----	-----
Total assets	3,678,981	389,065	4,068,046
	-----	-----	-----
LIABILITIES:			
Accounts payable	3,215	19,950	23,165
	-----	-----	-----
Total liabilities	3,215	19,950	23,165
	-----	-----	-----
NET ASSETS HELD IN TRUST FOR BENEFITS	\$3,675,766	\$369,115	\$4,044,881
	=====	=====	=====

CITY OF HIGHLAND PARK, MICHIGAN

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	General Employees' Retirement System	Police and Fire Retirement System	Total
ADDITIONS:			
Investment income -			
Interest and dividends	\$155,898	\$5,259	\$161,157
Net appreciation in fair value of investments	298,269	233	298,502
Less investment expense	(500)	-	(500)
	-----	-----	-----
Total investment income	453,667	5,492	459,159
	-----	-----	-----
Contributions -			
Employer	1,409	1,781,884	1,783,293
Employees	1,617	-	1,617
	-----	-----	-----
Total contributions	3,026	1,781,884	1,784,910
	-----	-----	-----
Total additions	456,693	1,787,376	2,244,069
	-----	-----	-----
DEDUCTIONS:			
Pension benefits	1,501,563	1,216,475	2,718,038
Health care benefits, net	322,422	495,160	817,582
Administrative expenses	327	220	547
	-----	-----	-----
Total deductions	1,824,312	1,711,855	3,536,167
	-----	-----	-----
NET INCREASE (DECREASE)	(1,367,619)	75,521	(1,292,098)
NET ASSETS HELD IN TRUST FOR BENEFITS:			
Beginning of year – RESTATED – Note 4-H	5,043,385	293,594	5,336,979
	-----	-----	-----
End of year	\$3,675,766	\$369,115	\$4,044,881
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